

## TARIFF ACTION MEMORANDUM

To Commissioners:

Robert M. Pickett, Chairman  
Stephen McAlpine  
Antony G. Scott  
Daniel A. Sullivan  
Janis W. Wilson

Date: December 23, 2020  
Date Filed: December 1, 2020  
30-Days Ends: December 31, 2020  
Effective Date: January 1, 2021

From: Julie C. Vogler, Utility Financial Analyst

Subject: TL64-307- Kuparuk Transportation Company Annual Rate Revision

### **Recommendation**

Staff recommends the Commission:

1. Approve Tariff Sheet No. 5 filed on December 1, 2020, with an effective date of January 1, 2021. A side-by-side copy is attached as Schedule JCV-1.

Please see attached Staff Memorandum supporting the above recommendation.

Signed: Julie C. Vogler Title: Utility Financial Analyst  
Julie C. Vogler

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Commission decision regarding this recommendation:

	Date (if different from 12/23/20)	I Concur	I Do Not Concur	I Will Write A Dissenting Statement *
Pickett	_____	<u>RMP</u>	_____	_____
McAlpine	_____	<u>SM</u>	_____	_____
Scott	_____	<u>AGS</u>	_____	_____
Sullivan	_____	<u>DS</u>	_____	_____
Wilson	_____	<u>JW</u>	_____	_____

\* If this column is initialed, Staff will contact the Commissioner for the statement; otherwise, the dissent will simply be noted at the close of the By Direction Letter Order

## M E M O R A N D U M

To: Robert M. Pickett, Chairman  
Stephen McAlpine  
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Daniel A. Sullivan  
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Date: December 23, 2020

From: Julie C. Vogler  
Utility Financial Analyst

Subject: TL64-307- Kuparuk Transportation Company Annual Rate Revision

### Recommendation

Staff recommends the Commission:

1. Approve Tariff Sheet No. 5 filed on December 1, 2020, with an effective date of January 1, 2021. A side-by-side copy is attached as Schedule JCV-1.

### Background

Kuparuk Transportation Company (KTC) operates the Kuparuk Pipeline, which is an approximately 37-mile long pipeline that originates at the Kuparuk River Unit (KRU) oil field on the North Slope of Alaska, and connects to Pump Station 1 of the Trans Alaska Pipeline System (TAPS), with an interconnection at the Milne Point Pipeline between the KRU and Pump Station 1 of TAPS. The Kuparuk Pipeline has two pump stations located on the first ten miles of the system. A ten-mile section of the western portion of the system consists of 18-inch diameter pipe, while the remainder of the pipeline system is 24 inches in diameter.

KTC's rates have been established by settlement since the pipeline's inception. Rates paid for transportation on KTC's pipeline before 2009 were determined under a settlement agreement between KTC and the State of Alaska (State) that was filed in 1992 (1992 Settlement) and accepted in 1993.<sup>1</sup> The 1992 Settlement allowed for negotiations to be re-opened under four conditions in the general categories of throughput, tax rate, operating expenses, and capital expenditures. In 2008, the State filed a formal complaint

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<sup>1</sup>Order P-85-2(20), *Order Accepting Settlement, Subject to Condition; Requiring Filing; and Allocating Costs*, dated October 29, 1993.

against KTC challenging the intrastate rates being charged.<sup>2</sup> The State indicated it reopened negotiations with KTC, and when they were unable to reach agreement on a new settlement, the 1992 Settlement was terminated.<sup>3</sup>

The Commission opened Docket P-08-11 to investigate the State's complaint and intervention was granted to Anadarko Petroleum Corporation (Anadarko).<sup>4</sup> KTC, the State, and Anadarko were able to resolve their differences through settlement negotiations and filed a new Settlement Agreement, as well as a joint application<sup>5</sup> for approval of the Settlement Agreement.<sup>6</sup> The Settlement Agreement resolved all issues pertaining to both intrastate rates as well as interstate rates.

The Commission accepted the Settlement Agreement, which established the calculation of KTC's rates.<sup>7</sup> The parties agreed to calculate rates on an annual basis using the Kuparuk Settlement Methodology (KSM). KTC is required to file by December 1 of each year revised interstate<sup>8</sup> and intrastate rates for the following calendar year.<sup>9</sup> The rates filed may not exceed the maximum rates calculated under the KSM. KTC is required to provide all supporting information used to calculate the maximum rates to the State and Anadarko (referred to as the Non-Kuparuk Parties) 60 days prior to filing its revised rates with the Federal Energy Regulatory Commission (FERC) and the Regulatory Commission of Alaska (Commission). The Settlement also requires the parties to seek to resolve any questions or disputes regarding the rates calculated under the KSM prior to the annual filing of the revised rates.<sup>10</sup> KTC has filed annual rates using the KSM since 2011.

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<sup>2</sup> See TR0807794, *State of Alaska's Complaint Regarding Kuparuk Transportation Company's Rates for Transportation of Hydrocarbons, Request for Initiation of an Investigation and Hearing, and Request for Interim and Refundable Rate Relief Pending Final Adjudication*, filed December 1, 2008 (Complaint).

<sup>3</sup> Complaint at page 4.

<sup>4</sup> Order P-08-11(3), *Order Opening Investigation, Granting Intervention, Scheduling Prehearing Conference, and Requiring Filings*, dated February 26, 2009.

<sup>5</sup> *Joint Application by Kuparuk Transportation Company, the State of Alaska and Anadarko Petroleum Corporation for Approval or Acceptance of Settlement Agreement*, filed May 20, 2011; *Errata to Joint Application by Kuparuk Transportation Company, the State of Alaska and Anadarko Petroleum Corporation for Approval or Acceptance of Settlement Agreement*, filed May 23, 2011.

<sup>6</sup> The Settlement Agreement was attached as Exhibit 1 to the Joint Application.

<sup>7</sup> Order P-08-005(10)/P-08-011(11)/P-10-006(4), *Order Accepting Settlement Agreement and Closing Dockets*, dated July 18, 2011.

<sup>8</sup> On December 1, 2020, KTC filed the interstate rates with the FERC. See TL64-307 at 2.

<sup>9</sup> See I-4(e) of the Settlement Agreement.

<sup>10</sup> See Section I-5(a)(i) of the Settlement Agreement.

## **Filing**

On December 1, 2020, KTC filed TL64-307 proposing to increase its rate for intrastate transportation of petroleum from the Kuparuk River Unit to Pump Station 1 of TAPS, from \$0.281/barrel (bbl) to \$0.289/bbl and from the Milne Point Connection to Pump Station 1 of TAPS, from \$0.211/bbl to \$0.213/bbl, effective January 1, 2021. KTC asserted the increase in rates is primarily due to the projected 2021 throughput being lower than the throughput underlying KTC's existing rates, which results in an increase in rates to recover the projected 2021 revenue requirement. In addition, the projected cost of service for 2021 is expected to be lower than the cost of service underlying KTC's existing rates. The net effect of the decrease in throughput and the decrease in the cost of service is an increase to rates. KTC provided the required information to the Non-Kuparuk Parties on October 2, 2020.<sup>11</sup> Although the Commission did not impose any condition on KTC to provide a hard copy printout or a disk containing the calculation of the rates using the KSM, on December 1, 2020, KTC provided Staff the calculations under separate cover and Staff held them confidential pursuant to 3 AAC 48.040(b)(10).<sup>12</sup>

## **Notice**

The Commission publicly noticed TL64-307 on December 1, 2020, with a comment period ending December 22, 2020. The Commission received no comments or protests. In addition to the Commission's public notice, KTC electronically notified the Non-Kuparuk Parties and KTC's shippers.<sup>13</sup>

## **Analysis**

Staff reviewed the components<sup>14</sup> of the Settlement Agreement and the confidential excel schedules and verified the rates were calculated in accordance with the KSM. Under the KSM, the total cost of service is calculated as follows: ((Operating Expense +

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<sup>11</sup> TA64-307 at 1 and 2.

<sup>12</sup> 3 AAC 48.040 Confidential Records.

(b) The following records are confidential and are not open to inspection by the public unless they are released under 3 AAC 48.049 or court order or their release is authorized by the person with confidentiality interests:

(10) records of a regulated public utility, pipeline carrier, or pipeline submitted to or copied by the commission's advisory staff during any audit, review, or investigation in connection with any formal or informal proceeding

<sup>13</sup> TL64-307 at 2.

<sup>14</sup> See Sections II-5, II-6, II-7, II-8, II-9, II-10, II-11, II-14, Exhibit B, Exhibit C, Exhibit D, and Exhibit E of the Settlement Agreement.

DR&R Allowance + Depreciation + Equity AFUDC Amortization + IDC Amortization + Return on Rate Base + Income Tax Allowance + Net Carryover) – Rental Credit)).<sup>15</sup> The maximum rate is calculated using the projected distance portion of the total cost of service, the projected non-distance portion of cost of service, and throughput volumes for each origin (Kuparuk River Unit and Milne Point Connection). The total cost of service is then allocated to each origin and destination based on a barrel and barrel mile rate design. Non-distance related costs are allocated based on barrels transported for each origin and destination and distance related costs are allocated based on barrel miles for each destination.<sup>16</sup>

Staff also reviewed the model and verified KTC's assertion that the net effect of the decrease in throughput and the decrease in the cost of service results in the increase to rates. Staff has not recalculated the model's computations, but rather accepts that the KSM model accepted by the Commission in Order P-08-5(10)/P-08-11(11)/P-10-6(4) functions as designed. Staff notes that it was not able to independently verify the individual cost components or throughput volumes of the rate calculations because calculations are derived from company estimates, to which Staff does not have access. Therefore, Staff is relying on the settling parties to protest the proposed rate by filing comments during the public notice period if they believe the proposed rates violate the KSM.

### Conclusion

Staff's review of TL64-307 indicates that KTC's proposed rate revisions, as calculated, are less than or equal to the maximum allowable rate in accordance with the Settlement Agreement, and therefore, Staff recommends the Commission approve Tariff Sheet No. 5, filed with TL64-307 on December 1, 2020, effective January 1, 2021.

**Signature:**   
**Email:** bob.pickett@alaska.gov


**Signature:**   
**Email:** stephen.mcalpine@alaska.gov

<sup>15</sup> See Section II-3(a) of the Settlement Agreement.

<sup>16</sup> See Section II-1 of the Settlement Agreement.

**Signature:**   
**Email:** antony.scott@alaska.gov

**Signature:**   
**Email:** daniel.sullivan@alaska.gov

**Signature:**   
**Email:** janis.wilson@alaska.gov

RCA No. 307 16th Revision \_\_\_\_\_ Sheet No. 5  
Canceling  
15th Revision \_\_\_\_\_ Sheet No. 5

**RECEIVED**

NOV 27 2019

STATE OF ALASKA  
REGULATORY COMMISSION OF ALASKA

Kuparuk Transportation Company

SECTION 3

RATES

ITEM	FROM	TO	RATE	
3.1	Kuparuk River Unit	Pump Station 1 Trans Alaska Pipeline System	\$0.281/bbl	R
3.2	Milne Point Pipeline Connection	Pump Station 1 Trans Alaska Pipeline System	\$0.211/bbl	R

Tariff Advice No. TL63-307 Effective: January 1, 2020

Issued by: Kuparuk Transportation Company

By: /s/ Frank Feghali  
Frank Feghali

Title: Vice President of Managing Partner  
Kuparuk Pipeline Company

RCA No. 307 17th Revision \_\_\_\_\_ Sheet No. 5  
Canceling  
16th Revision \_\_\_\_\_ Sheet No. 5



Kuparuk Transportation Company

SECTION 3

RATES

ITEM	FROM	TO	RATE	
3.1	Kuparuk River Unit	Pump Station 1 Trans Alaska Pipeline System	\$0.289/bbl	I
3.2	Milne Point Pipeline Connection	Pump Station 1 Trans Alaska Pipeline System	\$0.213/bbl	I

Tariff Advice No. TL64-307 Effective: January 1, 2021

Issued by: Kuparuk Transportation Company

By: /s/ Frank Feghali  
Frank Feghali

Title: Vice President of Managing Partner  
Kuparuk Pipeline Company